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WITH Congress conveniently dis-persed for the Easter recess, the Justice Dept. announced early this week that President Reagan had dismissed William H. Kennedy, the U.S. Attorney in San Diego. Is it

conceivable that this is the deadly end of the affair?

Kennedy's real offense appears to have been an uncompromising dedication to the rule of law. In the line of duty, he refused to cover up for a CIA "source" whom he believed guilty of complicity in a large-scale auto-theft ring.

Now, Kennedy; a 51-year-old conservative Republican named to a four-year term by the President last autumn after a respected career as a county prosecutor, has been abruptly exiled. - Miguel Nassar His target -Haro, former head of Mexico's national police — is spared the threat of indictment.

Beyond the rough treatment accorded Kennedy and the immunity achieved by Nassar lies the larger issue of protection for dubious characters who achieve a CIA connection. The concept of privileged sanctuary is embodied in legislation recently approved by both houses and now awaiting final draft in conference.

Under the pending statute, Kennedy would not only have been banished from his job. He would himself be subject to prosecution.

Is that what Congress and the country want for our future?

The behind-the-scenes Kennedy battle began last November, soon after his appointment. Fourteen Mexican nationals had already pleaded guilty to participation in a ruthless auto-theft gang and received long terms. Three had worked for Nassar in 'Mexico's security police, and two named him as their collaborator.

Kennedy notified Washington he

was planning to seek Nassar's indictment. Then the CIA moved in. It informed the Justice Dept. that Nassar had, among other things, supplied "important information" about guerrillas operating in El Salvador and Guatemala.

Just how "important" his contri-butions were may be a matter of dispute; many CIA appraisals of informants have been notoriously inflated and inaccurate. In any event, Kennedy was unimpressed. He continued to fight for the right

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to prosecute Nassar.

Then, late last month, the San Diego Union learned about the Justice Dept.'s high-level ob-structionism and confronted Kennedy with its report. Instead of an evasive no-comment or off-the-record wink, he straightfor-wardly confirmed it.

Publication of the story produced an instant frenzy. Kennedy was summoned to Washington and belatedly rebuked by top officials. It was initially indicated that he would be allowed to stay on the job. But three days later word came that Attorney General William French Smith had decided to demand that he quit.

Kennedy balked. He presumably clung to the conviction that he had done no wrong. In Kennedy's view, associates said, Nassar was a crook beating the rap

because of his CIA credentials.
His tenacity, no doubt cynically described as simple-mindedness by the sharpshooters, increasingly exasperated Smith and other dignitaries. When it became clear that he would not walk away, his ouster was decreed. An accompanying presidential statement said his press comments were "highly prejudicial to the interests of the United States."

His comments had hardly been inflammatory. In essence he had simply corroborated what the San Diego paper had independently learned and added: "I'm concerned about the car owners or the insurance companies that have paid off claims."

The implications of the firing are explosive. The CIA has aggressively pressed the claim that its clandestine labors have been imperiled by disclosure of its agents' identity. Certainly there was valid reason for concern over indiscriminate name-dropping by ideological opponents. That was the initial basis for the pending legislation.

But how far should such protectiveness extend? Must the CIA again - become a secure haven for operatives whose crimes are wholly unrelated to "the interests of the United States"? A free society cannot invite limitless blackmail at the hands of a rapacious underworld.

Revelations in recent years about CIA and FBI abuses conveyed that message to Congress. The fate of William H. Kennedy

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